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# OUSING MARKET

Kelowna - Fall 2003

# OUTLOOK

Canada Mortgage and Housing Corporation

## RESALE MARKET

### SALES REMAIN STRONG IN 2004

The Kelowna area resale market will remain buoyant, last year's momentum carrying over into 2004. Expect sales to level out, dropping back *slightly* after reaching record highs this year. Sharply rising prices and reduced supply of listings point to fewer sales. The resale market is also beginning to see more competition from the new home market. Look for another strong performance overall in 2004.

The demand outlook for both new and resale housing remains positive. The BC economy is poised to see stronger, more broadly based growth, exports recovering in tandem with the US economy. Employment is up, recording solid gains

both this year and last. Inter-provincial migration is slowly turning around. A net inflow is expected by 2005. Closer to home, the Kelowna area economy and population continue to grow. An aging popu-

#### Kelowna resale market buoyant in 2004.

lation and growing profile among Vancouver area and out-of-province buyers has meant rising demand for retiree, resort and other life-style oriented housing. Interest rates will remain near historic lows through the balance of 2003 and on into 2004. Some downside risk remains. A soaring Canadian dollar, struggling forest products industry and

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HOUSING MARKET OUTLOOK is CMHC's bi-annual forecast for new and resale home markets. Issues are released in the spring and fall each year.

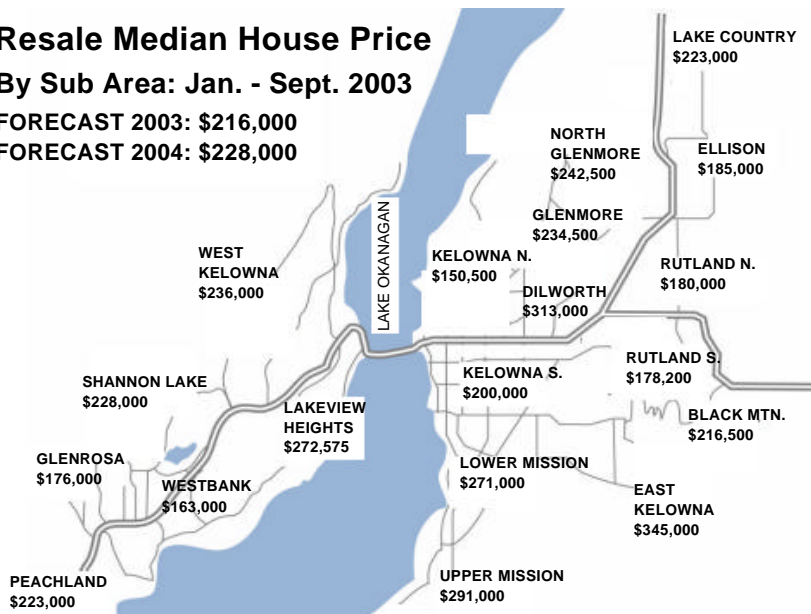
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### Resale Median House Price

By Sub Area: Jan. - Sept. 2003

FORECAST 2003: \$216,000

FORECAST 2004: \$228,000



HOME TO CANADIANS  
Canada

potential for a slower than expected US recovery may still dampen short-term prospects for stronger growth.

The resale singles market will see more move-up and fewer first-time buyers next year. The supply of singles listings priced at less than \$200,000 has dropped by more than half since last fall. Also, sharply rising prices mean

**Supply of listings down .... at fourteen year low.**

bigger down payments, for many, the biggest obstacle to home ownership.

The supply of singles listings continues to trend down and now stands at a 14 year low. The decline extends across most price ranges and locations. Neighbourhoods offering lower to mid priced detached units have seen the biggest drop in supply. The higher price ranges are better supplied, due, in part, to stronger price competition from the new home market. Supply will remain tight through 2004.

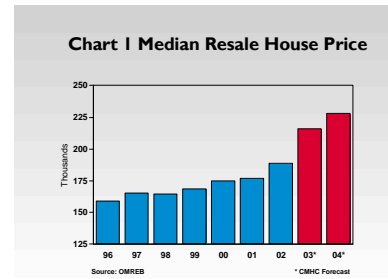
The sale price to list price ratio has steadily increased over the past year and properties are selling faster.

Sale prices have shot up in response to strong demand and sharply reduced supply. The median resale house price will rise to \$216,000 this year, up 15% from \$189,000 in 2002 - the biggest year-over-year gain since the early 1990s. The gap between resale and new home prices has begun to narrow. Stronger price competition

point to smaller increases next year, especially in the \$240,000-\$300,000 or mid price ranges. The median resale house price will reach \$228,000-\$230,000 by year-end 2004.

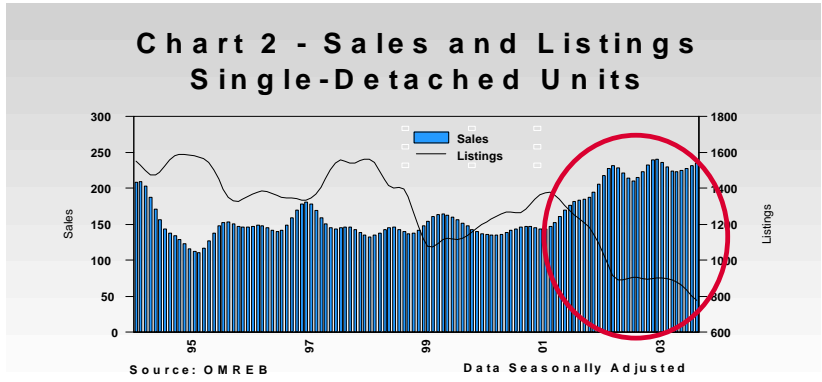
Glenrosa, Westbank and Kelowna North and South remain the most affordable locations. Glenmore, North Glenmore, Lake Country, Shannon Lake, Peachland, Lakeview Heights and West Kelowna are, at \$220,000-\$270,000, the focus of buyers seeking mid priced resale homes. Dilworth Mountain, the Mission, Southeast Kelowna and sections of Lakeview Heights and West Kelowna command the highest prices.

Sales of both apartment and townhouse condominiums have surged ahead in 2003. Affordability has been the key driver. More first-time buyers have turned to higher density housing in the wake of sharply rising singles prices and declining supply of lower to mid priced listings. In contrast, most



**Prices up sharply in 2003.**

new condo projects are targeting retiree, resort and lifestyle oriented markets - typically upscale, much more expensive units. Also, rising rents, tight rental market conditions and low cost of financing have triggered more interest from investors. The supply of apartment condos priced at less than \$125,000 has been substantially depleted, a big change from just two years ago. Townhouse listings have plunged to record lows. Both apartment townhouse prices are on the rise. Expect prices to continue trending up through 2004. Core area gated communities remain strong performers. The Kelowna area resale market will remain a seller's market in 2004.



**Expect singles sales to level out, dropping back slightly in response to rising prices and fewer listings.**

# NEW HOME MARKET

## HOUSING STARTS FLATTEN OUT IN 2004

The Kelowna area new home market will record another strong performance in 2004. Expect housing starts to edge down following this year's surge in multi-family construction, but remain well above levels seen since the early 1990s. Kelowna housing starts will total 1,900 units in 2004, fewer multi-family starts accounting for all of the

### **New home market records another strong performance in 2004.**

decline. Housing starts will reach 2,100 units in 2003, a ten year high. Both the singles and multi-family sectors will see big gains this year.

Absorption has held up, keeping inventories of complete and unsold units - all types - at near record lows. Also, with resale prices on the rise and supply of listings down sharply, more buyers are turning to the new home market. Rising lot prices, an ongoing shortage of skilled trades and more recently, the skyrocketing cost of some building materials remain big challenges for the new home industry. The time required to build a new home has steadily increased over the past year.

Singles construction will maintain a blistering pace through 2004, sustained, in part, by rebuilds of homes destroyed in the Okanagan Mountain Park

wildfire. The move-up buyer market, retirees and others seeking lifestyle oriented housing will remain the focus of new home demand in 2004. The \$300,000 plus price ranges will capture 36% of the new home market this year, up from only 12% in 1997. Homes priced at \$400,000 plus have seen the biggest gains to date this year, accounting for almost 19% of all singles absorbed at completion. Lake and valley view properties remain the strongest performers.

Strong demand for more upscale housing, rising lot prices and other costs will keep new home prices high. The median new home price will edge up to \$270,000 in 2003 from \$265,400 last year. New singles prices

have jumped by a third in just five years.

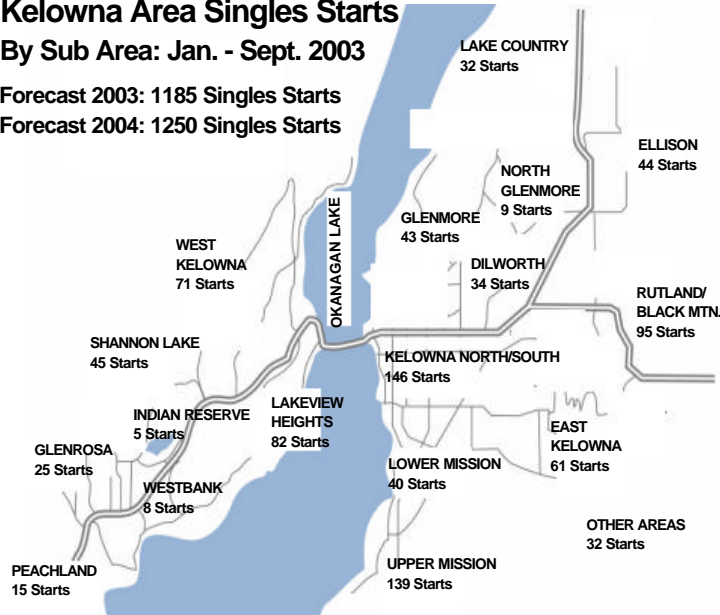
Few builders are currently targeting "entry-level" first-time buyers. High land development

### **Singles construction maintains blistering pace ..**

costs remain the biggest obstacle facing builders trying to penetrate this segment of the market. First-time buyers have, at present, limited options - on either the new or resale side. Attitudes are slowly changing, higher density housing becoming more widely accepted among first-time buyers. Expect demand for more modest "small lot/small house combinations, modular and higher density types of housing - affordable

### **Kelowna Area Singles Starts By Sub Area: Jan. - Sept. 2003**

Forecast 2003: 1185 Singles Starts  
Forecast 2004: 1250 Singles Starts



alternatives to conventional detached housing - to see stronger growth next year.

Both the City and west side continue to face a shortage of lower priced building lots. Few building lots are available for less than \$80,000. Though new developments and additional phases to existing subdivisions are currently under

**Few lots available for less than \$80,000.**

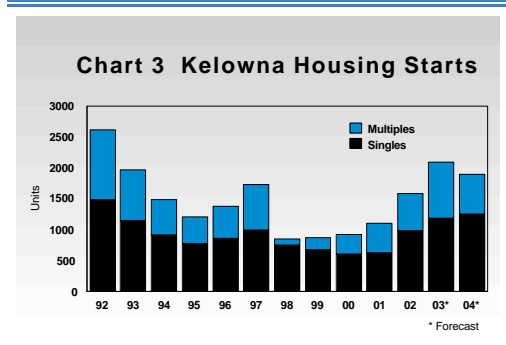
construction, most are targeting the mid to upper price ranges. Much of the available inventory is concentrated in the South Mission area.

Lot prices are on the rise, trending up sharply in response to strong demand and reduced supply. Higher land development costs, leap-frogging past lands in the Agricultural Land Reserve, Development Cost Charges and more costly hillside development have all contributed to higher lot prices. The \$75,000-\$85,000 price range now represents the low end in most new subdivisions. The median lot price is estimated at \$90,000-\$95,000. Premium lake, city and valley view lots are commanding

prices in the \$125,000-\$200,000 plus range.

Condominium starts will break the 700 unit mark in 2003, increasing by almost half from last year. Retirees and buyers seeking lifestyle and resort-oriented housing remain key markets, Kelowna's growing profile among Vancouver, out-of-province and international buyers boosting sales. Many are second residences or purchased in anticipation of retirement. Most new projects are targeting upscale markets - the mid to upper price ranges. Lakefront condos are the biggest sellers. The condo sector will see fewer starts in 2004, but remain a strong performer. Absorption has been brisk, keeping inventories low. Pre-sales are also holding up - 65% of units under construction have already been sold. With more projects coming on stream, expect the apartment condo market to become **increasingly** competitive in 2004.

Demand for gated community housing, especially in core area locations, remains strong. Look for more low density housing

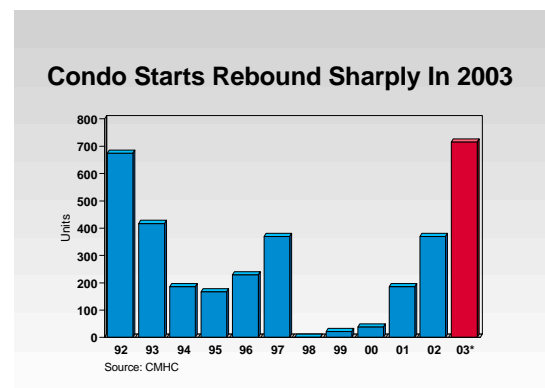


**Starts reach ten year high in 2003.**

projects targeting retiree and move-down markets in 2004.

More first-time buyers will turn to the multi-family sector as prices of resale singles rise and the supply of listings decline. This segment of the first-time buyer market remains largely untapped and may offer some development potential. Also recent reductions in Development Cost Charges for higher density housing may trigger more interest among builders. Expect to see more proposals for affordably priced multi-family housing - townhouses and semi-detached units, come forward next year.

The congregate housing market has seen vacancy rates drop for the third straight year. Look for new projects in both city and west side locations.



**The Kelowna area condo market has surged ahead in 2003,** starts rising to levels not seen since the early 1990s. The numbers are similar, but today's market is **very** different. A decade ago the, the condominium market was targeting first-time buyers, investors and retirees seeking modest, affordably priced units. Apartment condominiums were, with the exception of the Dolphins and Lagoons, average quality, wood frame buildings. Fast forward to 2001-2003. Retiree, resort and life style markets are the key drivers. Upscale units are the focus of demand. Recent sales are setting new price benchmarks. Kelowna is seeing more steel and concrete construction. Buyers are looking for prime locations - lake and valley views and good access to services and amenities. Lakefront units are the biggest sellers. Inventories remain low and presale activity brisk. Though starts will drop back from this year's record high, the condo market will remain buoyant overall through 2004.

# RENTAL MARKET

## RENTAL MARKET REMAINS TIGHT IN 2003 AND 2004

The Kelowna area vacancy rate will remain at 1.75%-2.0% in 2003. Steady employment and population growth have meant strong demand for rental accommodation, keeping vacancy rates low. Also, the outflow of renters to the home

### Expect vacancy rates to remain low through 2004.

ownership market seen last year has slowed in response to sharply rising prices and reduced supply of lower priced listings. Expect vacancy rates to remain low through 2004.

Sustained low vacancy rates point to higher rents this year and next. Average rents will increase another 2%-3% in 2003, one and two bedroom apartment rents rising to \$575

and \$700 per month, respectively, by year-end.

Low vacancy rates will trigger more rental construction in 2004. High land and land development costs and scarcity of sites remain big challenges for developers. Also, with demand for condominiums on the upswing, many builders are now focusing on the home ownership market. Rental housing starts will total only 54 units in 2003. Most rental projects built since 1997 have targeted renters seeking more upscale accommodation, until recently, a largely untapped market. Expect demand for this type of product to flatten out as more new supply comes on stream. Demand for new rentals will shift to more modest, medium priced apartment accommo-

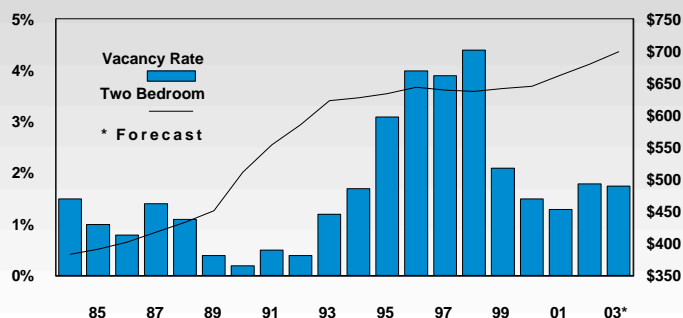
dation in 2004. Lower density rental housing remains a marginal proposition given land

### Rents will increase this year and next.

costs and competing residential development alternatives. Kelowna continues to see big additions to the stock of both detached and in-unit secondary suites.

Rental housing starts will double to 120 units -mainly apartment housing - next year. Look for development opportunities in areas experiencing stronger employment growth, including Westbank, Rutland, Orchard Park and Springfield Road and Highway 97 corridors.

**Chart 4 Vacancy Rate and Two Bedroom Apartment Rent**



Vacancy rate holds at 1.75%-2.0% in 2003. Sustained low vacancy rates mean higher rents this year and next.

## RENTAL MARKET INFORMATION

### The Kelowna Rental Market Survey Report

gives you the latest trends in vacancy rates and average rents for all apartment and townhouse structures of three or more units. To get ahead of your competition subscribe to **FASTFAX** and receive survey results the day they are released.

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# ECONOMIC OVERVIEW

## ECONOMY AND POPULATION GROW IN 2004

The Kelowna area economy will continue to expand in 2004. The residential construction and related manufacturing, high tech, retail and personal/business service sectors are the biggest sources of employment growth. Despite recent setbacks, tourism remains a key growth sector

### The Okanagan experiencing huge surge in resort construction activity ....

with the Thompson Okanagan among the provinces strongest performers. Okanagan resorts are attracting more US and other international visitors and buyers. Here at home, more Canadians are looking at domestic resort markets - affordable alternatives to the southern United States and elsewhere. The Okanagan is experiencing a huge surge in resort construction activity. High profile resort markets have, in turn, boosted interest in conventional housing. Resort-oriented and conventional housing markets - especially the condominium sector, are seeing more and more overlap. BC's successful bid for the 2010 Winter Olympics should have some positive spin-offs for Okanagan resorts. Small business and self-employment have become among the leading sources of Kelowna area job creation.

Kelowna's diversified economy

continues to outperform most other economies in the BC interior - economies more closely tied to resource-based industry.

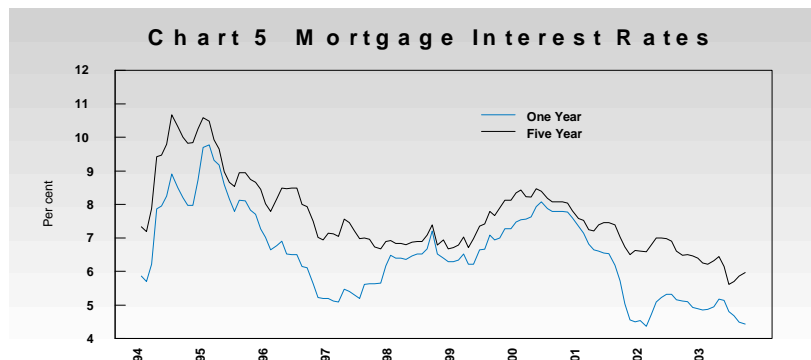
Strong population growth remains a key driver fueling demand for housing. Kelowna is the second fastest growing among BC's larger centres, trailing only the Greater Vancouver area. Unlike BC overall, Kelowna is beginning to see a net inflow of migrants from other provinces. Intra-provincial migration, people moving to Kelowna from within BC, has, in recent years, been the biggest source of population growth. A strong Vancouver real estate market has led to more migrants from the Lower Mainland. Also, Kelowna will continue to benefit from a province-wide trend towards urbanization. Many rural areas are seeing an outflow of people to larger urban centres, spurred, in part, by

shrinking employment opportunities among resource dependent communities. Kelowna remains a preferred

### Intra-provincial migration biggest source of population growth.

destination among retirees. An aging population and focus on lifestyle point to steady long-term population growth. The Kelowna area population will grow by 1.5%-2.0% in 2003 and 2004.

Mortgage rates will remain near historical lows through the balance of 2003 and on into 2004. Expect interest rates to edge up 0.50% - 0.75% later next year. The one, three and five year closed mortgage rates will increase to the 5.00-6.00, 6.00-7.00 and 6.75-7.75 per cent range, respectively, by year-end 2004. Many lenders continue to offer discounts ranging from 0.25% to 1.25%.



**Mortgage interest rates remain low through 2004.**

## HOUSING MARKET OVERVIEW

### Resale Market Remains Strong in 2004

- The Kelowna resale market will record another strong performance in 2004. Sales will drop back slightly, edging down in response to rising prices and reduced supply of listings. Sales will reach record highs in 2003. The move-up buyer market will remain the strongest performer. The supply of listings has tumbled to historic lows. Strong demand will keep supply down, pushing up prices again in 2004. The median resale house price will jump 15% to \$216,000 in 2003, the biggest year-over-year gain since the early 1990s. Stronger price competition between the resale and new home markets point to smaller increases in 2004.

### New Home Market Buoyant in 2004

- Expect housing starts to flatten out, declining slightly following this year's surge in multi-family construction. Housing starts will total 1,900 units in 2004, fewer multi-family starts accounting for all the decline. Singles construction will maintain a blistering pace, sustained, in part, by rebuilds of homes destroyed in the Okanagan Mountain Park wildfire. The new home market will remain buoyant overall in 2004. Housing starts will reach 2,100 units in 2003, a ten year high. Both the singles and multiples sectors will see big gains this year. The median new home price will edge up to \$270,000 by year-end 2003.
- Lot prices will continue to trend up in the face of strong demand, reduced supply and higher land and land development costs.
- The move-up, retiree and move-down markets - mid to higher priced homes, will remain the focus of demand in 2004.
- The apartment condo sector will see fewer starts in 2004, but remain a strong performer. Once again, retirees and buyers seeking resort and lifestyle-oriented units - typically more upscale, higher priced units, will remain key markets. Look for more lower density projects - mainly semi-detached units - targeting retirees and move-down buyers in 2004. Expect to see more proposals for first-time buyer oriented multi-family housing - a largely untapped market - come forward next year.
- Low mortgage rates and strong population growth will remain key drivers in 2004. An aging population and growing profile among out-of-province buyers points to steadily rising demand from retiree and resort/lifestyle oriented housing.
- The Kelowna area economy and population will continue to grow in 2004. Residential construction and related manufacturing, high tech, retail sales and business and personal services remain the biggest sources of job creation.

### Rental Market Remains Tight in 2003 And 2004

The Kelowna area vacancy rate will remain in the 1.75%-2.0% range this year and next. Rents will continue to rise in response to sustained low vacancy rates. Low vacancy rates will trigger more rental construction, starts doubling in 2004.

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## FORECAST SUMMARY

### Kelowna Area Fall 2003

RESALE MARKET	2001	2002	2003*	2004*	% CHG.
<b>MLS Active Listings (Sept.) **</b>	1,498	1,218	955	1,025	7.3
<b>MLS Sales</b>					
Total	2,882	3,586	3,785	3,590	(5.2%)
Single-Family	2,212	2,750	2,825	2,700	(4.4%)
Apartment	374	497	625	575	(8.0%)
Townhouse	296	339	335	315	(6.0%)
<b>MLS Median Price</b>					
Single-Family	\$177,000	\$189,000	\$216,000	\$228,000	5.6%
Apartment	\$95,000	\$105,000	\$123,000	\$130,000	5.7%
Townhouse	\$132,500	\$148,000	\$158,000	\$165,000	4.4%

## NEW HOME MARKET

<b>Complete and Unoccupied (Sept.)</b>	128	61	72	80	11%
Single-Family	68	38	47	55	17%
Multi-Family	60	23	25	30	20%
<b>Starts</b>					
Total	1,111	1,590	2,100	1,900	(9.5%)
Single-Family	625	987	1,185	1,250	5.5%
Multi-Family	486	603	915	650	(29.0%)
<b>Median New House Price</b>	\$260,000	\$265,400	\$270,000	\$280,000	3.7%

## Rental Market

Vacancy Rate	1.3%	1.8%	1.75%-2.0%	1.75%-2.0%
Rental Rate - % Chg. two bedroom	2.8%	2.6%	2.5%-3.0%	2.5%-3.0%
Rental Housing Starts***	213	64	55	120

## ECONOMIC OVERVIEW

Mortgage Rate (3 year term)	6.88%	6.28%	5.25-6.25%	6.00-7.00%
Mortgage Rate (5 year term)	7.40%	7.02%	6.00-6.75%	6.75-7.75%
Net Migration	2,000	2,250	2,500	3,000

\* Forecast. \*\* Single-detached, apartment and townhouse. \*\*\* Privately and publicly initiated units. Source: CMHC, Okanagan Mainline Real Estate Board.

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